

Message Text

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PAGE 01 STATE 124355
ORIGIN PM-05

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 NEA-11 ISO-00
SS-15 L-03 NSC-05 AID-05 EB-08 CIAE-00 INR-10
NSAE-00 DODE-00 OMB-01 TRSE-00 /106 R

DRAFTED BY PM/SAS:COCECIL:EB/IFD:BCROWE:RG
APPROVED BY T:LWBENSON
TREASURY:CCROSSWHITE
DOD/DSAA:EGRAVES
EUR/RPM:EREHFELD
ARA/RPP:COL.SQUIGG
EA/RA:COL.MEILAND
NEA/RA:COL.WGROSS
L/PM:TBOREK
PM:RAERICSON

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R 162006Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY CARACAS
AMEMBASSY SANTO DOMINGO
AMEMBASSY MEXICO
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
AMEMBASSY ASUNCION
AMEMBASSY LIMA
AMEMBASSY SAN SALVADOR
AMEMBASSY GUATEMALA
AMEMBASSY PORT AU PRINCE
AMEMBASSY TEGUCIGALPA
AMEMBASSY BUENOS AIRES
AMEMBASSY LA PAZ
AMEMBASSY BRASILIA
AMEMBASSY BOGOTA
AMEMBASSY SAN JOSE
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AMEMBASSY QUITO
AMEMBASSY RABAT
AMEMBASSY TUNIS
AMEMBASSY DAKAR
AMEMBASSY KINSHASA
AMEMBASSY LIBREVILLE
AMEMBASSY YAOUNDE

AMEMBASSY NAIROBI
AMEMBASSY MONROVIA
AMEMBASSY MADRID
AMEMBASSY ATHENS
AMEMBASSY ANKARA
AMEMBASSY TAIPEI
AMEMBASSY JAKARTA
AMEMBASSY SEOUL
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY BANGKOK
AMEMBASSY ADDIS ABABA
AMEMBASSY BEIRUT
AMEMBASSY AMMAN
AMEMBASSY TEL AVIV
AMEMBASSY NEW DELHI
AMEMBASSY BAMAKO
INFO AMEMBASSY KHARTOUM
USMISSION USNATO
CINCPAC HONOLULU HAWAII 0000
USCINCEUR
USCINCSOUTH

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E.O. 11652: N/A

TAGS: MASS, XA, XB, XM, XF, XT

SUBJECT: DELINQUENT FMS LOAN PAYMENTS

FROM UNDER SECRETARY BENSON TO THE AMBASSADOR

1. I AM CONCERNED WITH THE INCREASING FREQUENCY OF DELINQUENT PAYMENTS DUE FROM FOREIGN GOVERNMENTS WHICH ARE RECIPIENTS OF FOREIGN MILITARY SALES (FMS) FINANCING. IN RECENT MONTHS 23 GOVERNMENTS HAVE FAILED TO MAKE 61 SCHEDULED PAYMENTS ON TIME. I AM CONCERNED THAT PUBLIC AND CONGRESSIONAL SUPPORT FOR THIS PROGRAM WILL BE ERODED IF WE DO NOT SHOW THAT IT IS BEING EFFECTIVELY ADMINISTERED. THE REPAYMENT TERMS AND SCHEDULES FOR THESE LOANS ARE LEGAL OBLIGATIONS ACCEPTED BY THE GOVERNMENTS CONCERNED, TERMS OF WHICH SHOULD BE WELL KNOWN TO THEM. TIMELY REPAYMENT IS AN OBVIOUS ADMINISTRATIVE RESPONSIBILITY OF THE BORROWER, BUT IN MANY CASES RECIPIENT GOVERNMENTS OR EMBASSIES HAVE EXPRESSED CONCERN OR SOUGHT EXCEPTIONAL TREATMENT WHEN DELINQUENCIES HAVE TRIGGERED DEFAULT

PROVISIONS OF THE LOANS. THE REPAYMENT AND DEFAULT PROVISIONS OF FMS LOANS ARE NEITHER ONEROUS NOR UNUSUAL AND THEY ARE ESSENTIAL TO THE BUSINESS-LIKE OPERATION OF THE FMS FINANCING PROGRAM WHICH TOTALS MORE THAN \$2 BILLION ANNUALLY. TO FACILITATE SUCH OPERATION AND TO

PRECLUDE FUTURE EMBARRASSMENT I ASK THAT YOU ENSURE THAT YOUR HOST GOVERNMENT UNDERSTANDS ITS OBLIGATIONS AND THE PROCEDURES WHICH WILL BE FOLLOWED IN THE EVENT OF DELINQUENT PAYMENTS. IT SHOULD ALSO APPRECIATE THAT CONTINUED DELINQUENCIES CAN HAVE SERIOUS CONSEQUENCES FOR THE BORROWER AND FOR THE FMS FINANCING PROGRAM WHICH IS UNDER INCREASINGLY CLOSE CONGRESSIONAL SCRUTINY.

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2. FMS CREDIT FINANCING TAKES TWO FORMS: (1) CREDIT, EXTENDED DIRECTLY BY THE DEPARTMENT OF DEFENSE, AND (2) THIRD-PARTY LOANS GUARANTEED BY DOD (SINCE CY 1975, WITH FEW EXCEPTIONS, FINANCING HAS BEEN THROUGH THE FEDERAL FINANCING BANK). ALL LOAN AGREEMENTS CONTAIN FULL INFORMATION ON REPAYMENT PROCEDURES, INCLUDING DATES DUE AND ADDRESS TO WHICH PAYMENT SHOULD BE DIRECTED. AGREEMENTS ARE SIGNED IN WASHINGTON, AT WHICH TIME COPIES ARE PROVIDED TO REPRESENTATIVE OF FOREIGN NATION (USUALLY THE AMBASSADOR) SIGNING ON HIS COUNTRY'S BEHALF. IN FUTURE, WE WILL FORWARD TWO COPIES OF SIGNED AGREEMENT TO AMERICAN EMBASSY IN HOST COUNTRY, ONE FOR EMBASSY RETENTION AND ONE FOR PRESENTATION TO LOCAL MINISTRY OF FINANCE OR OTHER APPROPRIATE AGENCY, AS BACK-UP AGAINST POSSIBILITY WASHINGTON EMBASSY MAY FAIL TO TRANSMIT ITS COPY. IF NECESSARY, A RESUME OF EXISTING LOANS CAN BE MADE AVAILABLE UPON REQUEST.

3. IN ADDITION TO PRINCIPAL REPAYMENT SCHEDULE LISTED IN LOAN AGREEMENT, USG SENDS BILLING STATEMENTS 30-45 DAYS IN ADVANCE TO ADDRESS, IN US OR ABROAD, PROVIDED BY BORROWER, AS INCLUDED IN LOAN AGREEMENT. BILLING STATEMENTS ARE PROVIDED AS A COURTESY REMINDER AND NOT AS A CONDITION OF THE LOAN AGREEMENT. IT SHOULD BE STRESSED THAT BORROWER'S PAYMENT OBLIGATIONS ARE THOSE SET FORTH IN LOAN AGREEMENTS AND DO NOT DEPEND ON RECEIPT OF THESE COURTESY REMINDERS. YOUR EMBASSY SHOULD REQUEST LOCAL OFFICIALS TO INSURE THAT THEIR EMBASSY IN WASHINGTON IS AWARE OF IMPORTANCE OF FORWARDING SUCH STATEMENTS TO APPROPRIATE AUTHORITIES AS EXPEDITIOUSLY AS POSSIBLE. IN THE FUTURE AN INFORMATION COPY OF BILLING STATEMENTS WILL ALSO BE SENT TO AMERICAN EMBASSY.

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4. IF PAYMENT IS NOT RECEIVED BY USG LENDER ON DATE DUE, DEPARTMENT WILL WITHIN TWO BUSINESS DAYS SEND A CABLE TO EMBASSY ASKING THAT THE DELINQUENCY BE BROUGHT TO THE ATTENTION OF THE APPROPRIATE HOST COUNTRY AUTHORITIES. EMBASSY SHOULD COORDINATE SUCH REPRESENTATIONS WITH MAAG (OR COMPARABLE SECURITY ASSISTANCE MANAGEMENT ORGANIZATION). ADDITIONAL INTEREST IS CHARGED FOR EACH DAY OF ARREARAGE. ABOVE CABLE WILL BE ONLY ATTEMPT

MADE BY WASHINGTON TO ASCERTAIN WHEREABOUTS OF FUNDS.

5. OUR EXPERIENCE IN HAVING US EMBASSIES NOTIFY HOST GOVERNMENTS OF ARREARAGES OFTEN HAS RESULTED IN CONFUSING AND INACCURATE RESPONSES. THEREFORE, IN THE FUTURE, AFTER CALLING ARREARAGE TO ATTENTION OF FOREIGN GOVERNMENT, WE WILL NOT CONSIDER IT APPROPRIATE FOR USG OFFICIALS TO ATTEMPT TO TRACE EXACT WHEREABOUTS OF FUNDS, SINCE THIS COULD BE MISINTERPRETED AS AN ATTEMPT TO INTERVENE IN WHAT IS ESSENTIALLY A PRIVATE RELATIONSHIP BETWEEN FOREIGN GOVERNMENT AND ITS BANKERS. POINT IS THAT FOREIGN GOVERNMENT SHOULD INITIATE PAYMENT PROCESS EARLY ENOUGH SO THAT FUNDS REACH THE LENDER BY DUE DATE.

6. IF PAYMENT HAS NOT BEEN RECEIVED BY THE DUE DATE, LOAN IS IN ARREARS. IN THE CASE OF GUARANTEED FFB LOANS, ON 11TH DAY OF ARREARAGE, FFB WILL ASK DOD TO MAKE GOOD ON ITS GUARANTY BY MAKING REQUIRED PAYMENT. ACTUAL PAYMENT BY DOD MAY TAKE AN ADDITIONAL TWO OR THREE DAYS.

7. ONCE COUNTRY IS IN ARREARS, ADDITIONAL CONSEQUENCES FOLLOW. THESE INCLUDE:

A. ADDITIONAL DISBURSEMENTS FROM REMAINING LOAN BALANCE WILL BE SUSPENDED. THIS COULD RESULT IN SUSPENSION OF FMS SHIPMENTS AND IN HALT OF PRODUCTION UNDERWAY, WHICH
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COULD IN TURN RESULT IN CONTRACT PENALTY COSTS.

B. OTHER LOANS TO THE BORROWER BY THE FFB MAY BE CONSIDERED IN DEFAULT; IN ANY EVENT, NO FURTHER DISBURSEMENTS UNDER THESE LOANS WILL BE MADE UNTIL DEFAULT IS CORRECTED.

C. WE MAY ELECT NOT TO PROCESS REQUESTS FOR NEW FMS CASES AND TO REFRAIN FROM PRESENTING OTHERWISE APPROVED NEW FMS CASES TO FOREIGN GOVERNMENT FOR SIGNATURE.

D. NO NEW FMS FINANCING AGREEMENTS WILL BE PRESENTED FOR SIGNATURE.

8. IN ADDITION TO THESE PROVISIONS YOU AND HOST GOVERNMENT SHOULD BE AWARE THAT CONGRESS MUST BE NOTIFIED IF THE LOAN REMAINS IN DEFAULT MORE THAN NINETY DAYS. IN ADDITION, DEFAULT IN EXCESS OF ONE CALENDAR YEAR WOULD DISCONTINUE ELIGIBILITY OF DEFAULTING COUNTRY FOR ASSISTANCE UNDER FOREIGN ASSISTANCE ACT AS WELL AS FOR FMS FINANCING.

FOR ANKARA AND KINSHASA: THESE INSTRUCTIONS ARE NOT INTENDED TO CONFLICT WITH ESTABLISHED PROCEDURES FOR RESCHEDULING DEBTS OF COUNTRIES EXPERIENCING A DEBT CRISIS. THE DEBT ARREARAGES OF COUNTRIES WHICH ARE INVOLVED IN CREDITOR CLUB NEGOTIATIONS WILL CONTINUE TO BE ADDRESSED ON A CASE-BY-CASE BASIS. VANCE

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Message Attributes

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Copy: SINGLE
Draft Date: 16 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
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Disposition Reason:
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Review Exemptions: n/a
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Subject: DELINQUENT FMS LOAN PAYMENTS FROM UNDER SECRETARY BENSON TO THE AMBASSADOR
TAGS: MASS, XA, XB, XM, XF, XT, US
To: MONTEVIDEO SANTIAGO MULTIPLE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/9e3f3e9c-c288-dd11-92da-001cc4696bcc
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